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13 UNITED STATES DISTRICT COURT

14 NORTHERN DISTRICT OF CALIFORNIA

15 NETFLIX, INC., a Delaware corporation,  
16 Plaintiff,

17 v.

18 BLOCKBUSTER INC., a Delaware  
corporation, DOES 1-50,

19 Defendant.

20 AND RELATED COUNTERCLAIMS  
21

Case No. C 06 2361 WHA (JCS)

**BLOCKBUSTER INC.'S REPONSE TO  
REQUEST RE CASE MANAGEMENT**

Complaint Filed: April 4, 2006

In response to the Court's Request Re Case Management dated April 20, 2007, Blockbuster Inc. ("Blockbuster") respectfully submits the following:

**(1) Substantive Pre-Trial Motions (Excluding Motions In Limine Directed At Evidentiary Items).**

Blockbuster anticipates that it may file a motion for summary judgment with respect to invalidity, non-infringement, inequitable conduct and/or plaintiff's damages theories. These issues are still under consideration, particularly while initial expert reports have not yet been exchanged. Motions in limine have not yet been determined.

**(2) Whether The Same Jury Should Hear The Patent And Antitrust Cases.**

Blockbuster and Netflix recently entered into a Stipulation and Agreement Regarding Antitrust Claims and Discovery Disputes whereby Blockbuster agreed not to pursue its antitrust Counterclaims 1 and 2 against Netflix. A copy of that Stipulation and Agreement appears on the Court's Docket as entry 197. In light of the Stipulation and Agreement, issue number two raised by the Court is now moot.

**(3) Whether The Jury Should Hear The Inequitable Conduct Case.**

Where, as here, the defense of inequitable conduct that will be before the Court and the legal claims that will be before the jury share common factual questions, common witnesses, and common exhibits, it is proper for the jury to hear evidence on the inequitable conduct claim. *See, e.g., Dippin' Dots, Inc. v. Mosey et al.*, 476 F.3d 1337, 1341-42, 1346 (Fed. Cir. 2007) (affirming district court's finding of inequitable conduct where jury was presented with evidence relating to invalidity *and* inequitable conduct); *3M Innovative Props. Co. v. DuPont Dow Elastomers LLC*, 361 F.Supp. 2d 958, 981 (D. Minn. 2005) (denying motion for bench trial on inequitable conduct, because if the "court bifurcated the inequitable conduct claim, it appears the evidence would have to be introduced again, and witnesses would testify twice, at least with respect to prior art issues.").

The defense of inequitable conduct is equitable in nature, and is a matter to be resolved by the Court. *See e.g., Cabinet Vision v. Cabnetware*, 129 F.3d 595, 600 n.4 (Fed. Cir. 1997); *Paragon Podiatry Lab.*, 984 F.2d at 1190. However, the jury will determine the validity

of the patents-in-suit, which will involve a determination of the same facts about the omitted prior art, including the NCR patents that are important to Blockbuster's inequitable conduct defense.

**A. There Is Substantial Overlap Of Issues Between The Defense Of Invalidity And The Inequitable Conduct Case.**

The evidence that goes to Blockbuster's inequitable conduct case is relevant to and closely intertwined with Blockbuster's defense of invalidity.

**1. Inequitable Conduct Standard**

"Inequitable conduct includes affirmative misrepresentations of a material fact, failure to disclose material information, or submission of false information, coupled with an intent to deceive." *See Baxter Int'l, Inc. v. McGaw, Inc.*, 149 F.3d 1321, 1327 (Fed. Cir. 1998). Whether the misrepresented or withheld information meets a threshold level of materiality is the first step in an inequitable conduct analysis, followed by a determination of whether the evidence shows a threshold level of intent to deceive the PTO. *See id.* Once the thresholds have been met, the court must weigh the materiality and intent in light of all the circumstances to determine whether or not the conduct was so culpable that the patent should be held unenforceable. *See Dayco Prods., Inc. v. Total Containment, Inc.*, 329 F.3d 1358, 1363 (Fed. Cir. 2003).

To be material, withheld prior art need not have been invalidating, but withheld prior art that invalidates a patent is generally highly material. One standard used in determining materiality is whether a "reasonable" patent examiner would have considered it important. 37 C.F.R. § 1.56(a). *See also Dayco Prods., Inc.*, 329 F.3d at 1363 (quoting *Driscoll v. Cebalo*, 731 F.2d 878, 884 (Fed. Cir. 1984)). Failure to disclose prior art can be a material omission even if the patent would have issued despite such disclosure. *See, e.g., Merck & Co., Inc. v. Danbury Pharmacal, Inc.*, 873 F.2d 1418 (Fed. Cir. 1989). However, evidence relating to the materiality of the information a patentee misrepresented or failed to disclose to the PTO largely overlap with that concerning the validity of the patent claims.<sup>1</sup> Certainly, such evidence overlats in this case -

<sup>1</sup> 35 U.S.C. § 103 provides that a patent may not issue if the subject matter of the patent would have been obvious to "a person having ordinary skill in the art." "While the ultimate question of patent validity is one of law . . . the [§] 103 condition . . . lends itself to several factual inquiries." *Graham v. John Deere Co.*, 383 U.S. 1, 17 (1966). These factual inquiries

1 - with respect, for example, to the prior art patents assigned to NCR.

2 **2. Netflix And Its Prosecution Counsel Knowingly Failed To Disclose**  
 3 **Prior Art, Including The NCR Patents, To The PTO.**

4 Both of the patents-in suit are unenforceable because of Netflix's inequitable  
 5 conduct before the PTO during prosecution. Netflix failed to disclose material references,  
 6 including the NCR-assigned patents, during the prosecution of them. *See* Blockbuster's  
 7 Answer to First Amended Complaint at ¶¶ 44-70. The patents-in-suit are U.S. Patent  
 8 No. 6,584,450 entitled "Method and Apparatus for Renting Items" ("the '450 patent") and U.S.  
 9 Patent No. 7,024,381 entitled "Approach for Renting Items to Customers" ("the '381 patent").  
 10 The named inventors of the patents-in-suit are W. Reed Hastings, Chief Executive Officer of  
 11 Netflix; Mark B. Randolph, former CEO and President of Netflix; and Neil Duncan Hunt,  
 12 Netflix's Chief Product Officer.

13 The '450 patent issued on June 24, 2003, and the '381 patent issued on April 4,  
 14 2006. Claim 1 of the '450 patent claims "[a] method for renting items to customers," while  
 15 Claim 1 of the '381 patent is directed to "[a] computer-implemented method for renting movies  
 16 to customers."

17 Netflix and its named inventors were well aware of the NCR patents during prosecution of the  
 18 applications for the patents-in-suit but failed, over a period of years, to disclose them to the PTO.  
 19 For example, one of the NCR patents is U.S. Patent No. 5,699,526 (the '526 patent), entitled  
 20 "Ordering and Downloading Resources from Computerized Repositories," which was issued on  
 21 December 16, 1997, several years before the application for the '450 patent was filed. The NCR  
 22 patents are replete with disclosures of features that are the same as or similar to features Netflix  
 23 has claimed in the subject patents. To provide only a few examples:

- 24 • Netflix's asserted patents are directed to a computer-implemented method and system for  
 25 renting items – or sometimes, more specifically, movies – to customers. Similarly, NCR

26 include (1) the scope and content of the prior art, (2) the difference between the prior art and the  
 27 claims at issue, and (3) the level of ordinary skill in the pertinent art. *See id.* Some secondary  
 28 considerations might also indicate the obviousness or non-obviousness of the subject matter. *See*  
*id.*

1 patents cited in Blockbuster's Answer and Counterclaims disclose a computer-  
2 implemented method for distributing items including movies and video tapes to  
3 customers. (See, e.g., '526 patent, col. 2:55-57, 5:10-15 & Fig. 1B.)

- 4 • Ninety-five claims of Netflix's '450 patent include "receiving one or more item selection  
5 criteria that indicates one or more items that a customer desires to rent . . . ." NCR's  
6 '526, '403, '791, '855, and '096 patents disclose use of item selection criteria – for  
7 example, a "display [that] prompts the user to request a search based on three criteria (or  
8 less)." (E.g., '526 patent, col. 10:57-58 & Figs. 9-11.)
- 9 • All fifty-one claims of Netflix's '381 patent include "providing electronic digital  
10 information that causes one or more attributes of movies to be displayed . . . ." The NCR  
11 patents disclose just such a process. Electronic digital information is provided that allows  
12 resources (including movies) to be selected. This causes display of "an associated  
13 PROFILE, which contains descriptive information about the RESOURCE." (E.g., '526  
14 patent, col. 4:42-43.)
- 15 • All claims of the '381 patent, and several claims of the '450 patent, include an "item  
16 rental queue" or "movie rental queue" containing items desired by a customer. ('381  
17 patent, Claims 1-51; '450 patent, Claims 7, 22, 42, 57, 72, 87.) In the claims of the '381  
18 patent, the queue is "establish[ed] in electronic digital form, from electronic digital  
19 information received over the Internet . . . ." ('381 patent, Claims 1, 14, 24, 34, 44.)  
20 NCR's '526, '791, '403, '855, and '096 patents all disclose a process of establishing in  
21 electronic digital form, from electronic digital information received over a computer  
22 network, a list associated with a customer that indicates his or her interests in searching  
23 for resources. (E.g., '526 patent, col. 18:48-49.)
- 24 • All independent claims of the '381 patent provide for electronically updating a movie  
25 rental queue in response to electronic digital information received from a customer over  
26 the Internet. ('381 patent, Claims 1, 14, 24, 34, 44.) Numerous claims of the '381 patent  
27 specifically recite updating the queue by adding or deleting items. ('381 patent, Claims  
28

1 3, 4, 16, 17, 26, 27, 36, 37, 46, 47.) Similarly, NCR's '526, '799, '403, '855, and '096  
2 patents all disclose updating a customer's interest list via a computer network, including  
3 the ability to "add or delete interests in your current listing." (E.g., '526 patent, col.  
4 18:49-51.)

- 5 • Claims of both the '450 and '381 patents include the step of delivering items to a  
6 customer by mail or via a "delivery agent." ('450 patent, Claims 12, 13, 27, 28, 34, 35,  
7 62, 64, 77, 78; '381 patent, Claims 7, 20, 30, 40, 48.) NCR's '526, '791, '403, '855, and  
8 '096 patents disclose delivery of items electronically selected by a customer via an  
9 organization's "internal mail service," or a "public, common carrier . . . ." (E.g., '526  
10 patent, col. 15:23-27.)

11 Netflix's own admissions in a case filed in the Northern District of California  
12 (*Netflix, Inc. v. NCR Corporation*, Case No. C-06-1892 ("*Netflix v. NCR*")), show that Netflix  
13 was aware of the NCR patents during the prosecution of the applications that resulted in the '450  
14 and '381 patents-in-suit. Netflix's complaint in that action shows that named inventor Mr.  
15 Hastings -- also CEO and President of Netflix -- has been aware since on or about January 17,  
16 2003 of the existence of the prior art NCR patents *as well as* the fact that NCR believes that that  
17 their patents cover the very same online rental service claimed in Netflix's patents. Indeed,  
18 Netflix admitted in *Netflix v. NCR* that Mr. Hastings received several letters from NCR dating as  
19 early as January 7, 2003 -- more than six months before the '450 patent issued. NCR's January  
20 7, 2003 letter specifically identified ten NCR patents that were infringed by Netflix and which  
21 enclosed claim charts detailing Netflix's infringement. The NCR letter also threatened suit  
22 should Netflix not license the NCR's technology.

23 Netflix admits in its complaint against NCR that it thereafter received further  
24 correspondence and claim charts from NCR and met with NCR about its prior-art patents and  
25 NCR's assertions of infringement by Netflix. The dispute between Netflix and NCR over these  
26 prior-art patents culminated in Netflix's suing LCR for a declaratory judgment on March 10,  
27 2006 -- prior to issuance of the '381 patent -- alleging that, "[b]y virtue of NCR's actions, Netflix  
28

1 has a reasonable apprehension that NCR intends to sue it for infringing the NCR patents”  
2 (Netflix v. NCR Compl. ¶ 25) and that “[a]n actual and judicable controversy exists between  
3 Netflix and NCR concerning whether Netflix infringes any valid claim of the NCR patents.” (Id.  
4 ¶ 27.)

5 Despite all of these communications and notices from NCR about the NCR  
6 Patents, their ongoing controversy over the NCR Patents, and Netflix’s expressed apprehension  
7 that it would be sued for infringement of those patents, and its declaratory judgment action  
8 against NCR, neither Netflix nor its patent counsel disclosed any of the NCR patents to the PTO  
9 during the prosecution of the applications for the ‘450 and ‘381 patents.

10 Furthermore, recent depositions confirm that Netflix and its patent counsel were  
11 well aware of the NCR patents during prosecution of the patents-in-suit. For example, Netflix’s  
12 patent attorney – Mr. Palermo -- testified that he had reviewed the NCR patents during the time  
13 period in which he prosecuted the ‘450 and ‘381 patents.

14 **B. The Jury Will Be Required To Assess Materiality and Intent As Part of the**  
15 **Invalidity Findings**

16 In determining the validity of the patents-in-suit, the jury must decide the contents  
17 of the prior art -- including the NCR patents that are the subject of Blockbuster’s inequitable  
18 conduct defense -- and compare the prior art to the claims of the patents-in-suit. These same  
19 facts are important to the materiality of the NCR prior art. If the NCR patents would have  
20 anticipated and/or rendered the claims of the ‘450 and ‘381 patents obvious, either alone or in  
21 combination with other prior art, then they are likely to have been highly material.

22 As described above, Blockbuster asserts inequitable conduct on the ground that  
23 Netflix and its patent counsel failed to disclose the NCR patents during prosecution of the ‘450  
24 and ‘381 patents,. The inequitable conduct analysis involves an inquiry regarding whether the  
25 concealed NCR patents meet a threshold level of materiality, followed by a determination of  
26 whether the evidence shows a threshold level of intent on the part of Netflix or its patent counsel  
27 to deceive the PTO. In short, factual determinations of what the NCR patents disclose and how  
28 they compared to the claims of the patents-in-suit are keys to deciding both validity and



1 inequitable conduct.

2 During the trial on invalidity, Blockbuster will also be entitled to present evidence  
3 about Netflix's knowledge of and concealment of the NCR patents as well as other prior art.  
4 This will be relevant not only to the credibility of Netflix's inventors and other witnesses but also  
5 to raise the inference that Netflix's concealed these prior art because it knew disclosure would  
6 have prevented it from obtaining its patents.

7 Thus, all of the evidence relating to the NCR patents, including testimony and  
8 documents regarding when Netflix and its patent counsel were first aware of these patents, the  
9 litigation between Netflix and NCR relating to these patents, the substance of the NCR patents,  
10 and expert testimony relating thereto are all relevant to Blockbuster's defenses of invalidity *and*  
11 inequitable conduct. Many of the same witnesses -- including the named inventors Mr. Hastings  
12 and Mr. Hunt, and their patent counsel Mr. Palermo -- will need to testify about both invalidity  
13 and inequitable conduct.<sup>2</sup> Having the same jury that would decide the invalidity of the patents-  
14 in-suit also render an advisory verdict on the issues of materiality and intent underlying the  
15 inequitable conduct claim would conserve judicial and party resources, because all the evidence  
16 could be presented to the Court and the jury at one time.

17 Thus, under any scenario, the jury will hear the same witnesses and evidence with  
18 respect to the NCR patents, and it would be inefficient and duplicative to have that evidence  
19 presented twice.

20 **C. The Court May Also Submit the Issues of Materiality and Intent to an**  
21 **Advisory Jury**

22 Federal Rule of Civil Procedure 39(c) also provides that the Court has discretion  
23 to "try any issue with an advisory jury."<sup>3</sup> The Federal Circuit has expressly approved of the use  
24 of an advisory jury on the issue of inequitable conduct, and has recognized that there are a

25 <sup>2</sup> Moreover, the fact that the named inventors and their patent counsel intentionally misled  
26 the PTO in applying for the patents-in-suit is directly relevant to whether they should be believed  
when they testify before the jury as to the validity of those same patents.

27 <sup>3</sup> The findings by an advisory jury are not binding, for the ultimate responsibility for  
28 finding the facts remains with the court. *See* Wright & Miller, 9 Fed. Prac. & Proc. Civ. 2d §  
2335 (Trial by an Advisory Jury); *Wilson v. Prasse*, 463 F.2d 109, 116 (3d Cir. 1972).



1 variety of ways that a court may choose to handle the issue of inequitable conduct:

2           Some courts have reserved the entire issue of inequitable conduct  
3           unto themselves; some have submitted special interrogatories to  
4           the jury on the facts of materiality and intent; and some have  
5           instructed the jury to weigh the facts of materiality and intent and  
6           decide the ultimate question of inequitable conduct, as in the case  
7           at bar . . . . Absent a clear showing of prejudice, or failure to  
8           achieve a fair trial, the district court's choice of procedure will not  
9           be disturbed.

10 *Herbert v. Lisle Corp.*, 99 F.3d 1109, 1114 (Fed. Cir. 1996); *see also Duro-Last, Inc. v. Custom*  
11 *Seal, Inc.* 321 F.3d 1098, 1110 (Fed. Cir. 2003) (noting that the district court judge submitted the  
12 underlying factual inquiries regarding inequitable conduct to the jury and intended the jury  
13 findings to be advisory); *Fresenius Med. Care Holdings, Inc. v. Baxter Int'l, Inc.*, Case No. C-  
14 03-1431-SBA, 2006 WL 1646108 at \*2-3 (N.D. Cal. June 12, 2006) (denying motion to  
15 bifurcate and finding defendant would not be unfairly prejudiced if the evidence pertaining to  
16 inequitable conduct was tried to advisory jury); *Cargill, Inc. v. Sears Petroleum & Transport*  
17 *Corp.*, 388 F.Supp. 2d 37, 62 (N.D.N.Y. 2005) (having advisory jury address threshold questions  
18 of materiality and intent to deceive).

19           Submitting the factual issues of materiality and intent underlying the inequitable  
20 conduct claim to the jury will be helpful for the Court and conserve judicial and party resources.  
21 It is appropriate for a court to empanel an advisory jury where, as here, "the advice of a jury  
22 would be of particular aid given the nature of the action or the proof to be submitted."  
23 *N.A.A.C.P. v. AcuSport, Inc.*, 271 F.Supp. 2d 435, 470 (E.D.N.Y. 2003).

24           In addition, Netflix will not be prejudiced if the evidence relating to its  
25 inequitable conduct is submitted to the jury for an advisory verdict. Because the issues of the  
26 materiality of the omitted prior art for purposes of the inequitable conduct analysis and the  
27 validity of the patents-in-suit are significantly intertwined, the jury would necessarily hear a  
28 majority of the same evidence regardless of whether the Court permitted an advisory verdict.

1 Dated: April 30, 2007

BINGHAM MCCUTCHEN LLP

2  
3 By: /s/ Donn P. Pickett  
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**PROOF OF SERVICE**

I am over 18 years of age, not a party to this action and employed in the County of Los Angeles, California at 355 South Grand Avenue, Suite 4400, Los Angeles, California 90071-3106. I am readily familiar with the practice of this office for collection and processing of correspondence for mail/fax/hand delivery/next business day delivery/electronic transmission, and they are deposited that same day in the ordinary course of business.

On April 30, 2007, I served the attached:

**BLOCKBUSTER INC.'S REPOSE TO REQUEST RE CASE MANAGEMENT**

☒ (BY MAIL) by causing a true and correct copy of the above to be placed in the United States Mail at Los Angeles, California in sealed envelope(s) with postage prepaid, addressed as set forth below. I am readily familiar with this law firm's practice for collection and processing of correspondence for mailing with the United States Postal Service. Correspondence is deposited with the United States Postal Service the same day it is left for collection and processing in the ordinary course of business.

☒ (BY ELECTRONIC TRANSMISSION) This document was transmitted, without exhibits, by electronic transmission from nichele.goitia@bingham.com and the transmission was reported as complete and without error. I then caused the transmitting e-mail account to properly issue a report confirming the electronic transmission.

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1 I declare that I am employed in the office of a member of the bar of this court at  
2 whose direction the service was made and that this declaration was executed on April 30, 2007,  
3 at Los Angeles, California.

4  
5   
6 Nichele M. Goitia